Compliments of The First National Bank in Minneapolis, Minn.
Correspondent of The National City Bank of New York

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Economic Conditions
Governmental Finance
United States Securities

New York, April, 1929

General Business Conditions

THE course of business during the past month has been maintained at a high level of activity and sentiment continues optimistic. Manufacturing plants in most of the major industries are operating at near capacity. Retail trade in seasonable merchandise is brisk and employment is large and increasing.

Distribution of commodities as measured by railroad freight car loadings is running ahead of a year ago. The "miscellaneous freight" classification, indicative of commodities in general, shows the largest gain, and the increase is participated in by the majority of districts. Gross revenue receipts of the railroads this year are running substantially ahead of 1928 and the gain in net income is even more marked. Bank debits are approximately 16 per cent higher than last year and electric power output so far this year shows a gain of 10 per cent. Reports coming in from different sections of the country are almost unanimous in their testimony of good business conditions.

Maintenance of abnormally high money rates reflects the strain under which the banking system is put because of the large demands for credit for secured loans, together with the Spring seasonal requirements for commercial and agricultural purposes now appearing. Nevertheless, there is no evidence that these firm rates have affected the general business situation and the only possible weak spot of importance is in new building construction which has fallen under the volume of a year ago.

The Stock Market Crisis

During the last week of March these large credit demands, including shifting of balances in connection with income tax payments and in preparation of quarterly disbursements of dividends and interest, combined with the substantial withdrawal of funds from the New York call loan market, resulted in a scarcity of call money that sent the rates up to 20 per cent and caused a sharp reaction in stock prices. Prompt action by New York City banks, however, in offering to provide funds to take care of the market's requirements, served to avert any fears of a money panic.

The National City Bank fully recognizes the dangers of over-speculation and endorses the desire of the Federal Reserve authorities to restrain excessive credit expansion for this purpose. At the same time, the bank, business generally, and, it may be assumed, the Federal Reserve Banks, whose policies over the past year have been marked by moderation, wish to avoid a general collapse of the securities markets such as would have a disastrous effect on business.

It is evident from the way money has acted here in the past few days that the crisis has passed and the incident is a closed book. At the same time it would be unfortunate that any action taken by this bank during the emergency should have created the thought that our views, again and again expressed, as to undue expansion of the credit structure, had changed.

That there has been a most unusual expansion in credit is a fact that is generally admitted and that the largest element in that expansion is so-called speculative loans must also be, and is, recognized.

With this crisis past, the people of the country would be generally well advised to bear in mind the condition of the credit structure and voluntarily see to it that in their loan accounts they maintain wider margins and lean less heavily on borrowed money.

Steel and Automobiles

The unusual activity in business which the general barometers indicate is confirmed by reports coming from individual lines of industry. Steel mill operations in February established a new high production record of 180,198 tons daily, and indications are that March has gone February one better, with mill operations stepped up to average 95 per cent of capacity. Notwithstanding record production, unfilled orders have increased and March brings to a close one of the most successful quarterly periods since the war. The blowing in of a number of coke furnaces in the Connellsville,

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Pennsylvania district for the first time in ten years indicates confidence on the part of the trade that the present boom will endure for some time to come.

Automobile manufacturing is another big industry that established a new high record in production during the first quarter of the current year. January output of passenger cars and trucks in the United States amounted to 400,715 vehicles compared with 231,728 in the corresponding month of 1928, while February output was 466,084 compared with 323,796. This represents a gain of 56 per cent, which if continued, would mean a production for the full year of over 6,000,000 vehicles compared with 4,358,748 in 1928, the previous record year.

In budgeting the year's production, the automotive industry attaches great importance to two factors, namely, the large and increasing replacement demand and the export market. The former is based on a percentage of cars in use, and as the total number of registered vehicles has increased from 6,147,000 at the beginning of 1919 to 15,092,177 in 1924 and 24,750,000 at the beginning of 1929, the replacement demand has grown correspondingly in the last ten years.

Automotive Exports

Exports of automobiles for the month of January were 24,631 passenger cars and 13,034 trucks, a gain of 17.5 per cent over January, 1928, and a figure representing an annual rate of over 800,000 vehicles, as compared with 507,110 exported last year.

Value of assembled vehicles exported in January amounted to $25,835,836, while exports of "other automobile products" were valued at $20,001,000, principally "auto parts for assembly" which amounted to $11,716,786 contrasted with only $2,641,412 in January, 1928. The striking gain in parts and accessories reflects the expansion in assembly plants abroad on the part of American manufacturers. The following table shows the rapid increase in exports of automobiles, also parts and accessories, that has occurred since 1921 and brought this group to rank second in the major groups of the country's foreign trade:

EXPORTS OF AUTOMOBILES, PARTS & ACCESSORIES FROM UNITED STATES

Year	Cars & Trucks	Parts & Accessories	Total
1921	$ 42,870,000	$ 40,880,000	$ 83,750,000
1922	59,320,000	43,431,000	102,751,000
1923	106,009,000	64,317,000	170,326,000
1924	131,733,000	77,949,000	209,682,000
1925	222,590,000	95,601,000	318,191,000
1926	223,608,000	96,415,000	320,023,000
1927	278,090,000	110,232,000	388,322,000
1928	354,895,000	145,061,000	499,956,000

Canada, Argentina and Australia were our largest customers for assembled cars last year, while the January, 1929, figures show Argentina our leading customer, taking approximately 15 per cent of the passenger cars exported and 24 per cent of the trucks. American motor cars are now familiar objects in every country in the world. Their popularity is illustrated by the fact that of 73,843 cars registered in Japan at the beginning of the current year 93 per cent were American makes. Even in such a manufacturing country as Germany, 40 per cent of the new cars registered in 1928 were of American make.

Expansion of the American industry abroad has gone through several stages, beginning with the sale through agents, then by factory branches, followed by the building of assembly plants and now the construction of complete manufacturing facilities and the acquisition of controlling interests in established foreign companies. General Motors Corporation was recently reported to have secured control of the Adam Opel Works of Russelheim, Germany, the largest motor concern in that country. Ford Motor Company is establishing a chain of assembling and manufacturing subsidiaries in England, France, Germany, Belgium, Italy, Denmark, Spain, Sweden and Finland. While such moves to expand European sales will stimulate competition both among American companies abroad and among foreign concerns, they will doubtless widen markets as well. Aggressive developments such as the above give assurance of continued growth of the now gigantic automotive industry, whose progress has been one of the amazing features of modern times.

Other Active Industries

Activity in the steel and motor industries reflects good business in a host of other lines which use steel as their raw material or which supply automobile parts and accessories. Orders for electrical equipment are being placed in large volume and are well diversified among the different branches of the industry such as radio, household appliance and power plant installations. Agricultural implement manufacturers expect this year to set another new record in the program of modernizing farm equipment, and implement dealers in the Central West and Northwest report the largest Spring business since the war in power machinery, tractors, drills, hay tools and combines. The industrial machinery and tool industries, usually regarded as among the most reliable barometers of general business activity, are enjoying the most active sales since 1920.

Commercial aviation in 1928 increased more than 100 per cent over 1927 in mileage flown and tonnage carried. New capital is being invested in aviation at the average rate of perhaps two million dollars daily, to be expended on planes and engines, and in developing airports, the number of which has increased from

1056 at the beginning of last year to 1598 on March 1.

In the textile field, raw cotton consumption in February set a record for that month, amounting to 598,098 bales compared with 572,875 in February, 1928, with consumption for the first seven months of the cotton season which ends July 31 only slightly behind that of last year, which was a record. The woolen industry feels much encouraged by the success of the first annual "Golden Fleece Pageant" recently presented under the auspices of the Wool Institute, Inc., and is considering a tour of this exhibition throughout the country. Silk goods and hosiery manufacturers experienced a good Easter trade and their mills are now busy on Spring and Summer numbers.

The rayon industry continues its rapid expansion in production, at the same time constantly improving yarn quality and broadening its efforts to educate the public in the use of fabrics made of pure rayon and mixtures. As an illustration of the importance of the fashion element in the textile industries and of the steps that manufacturers are taking to reach the ultimate consumer, the Rayon Institute of America has organized a series of permanently located and traveling fashion shows.

New Building and Alterations

New building contracts awarded this year have run perhaps 20 per cent below the corresponding period of 1928, the decline being chiefly in speculative and weakly-financed residential building in the larger cities.

At the same time, there are advices from suppliers of materials that alteration work this year is unusually active, and that the program of rehabilitating old buildings serves to offset in part at least the reported decline in new construction. Non-residential building contracts have been greater in value this year than ever before.

Suggestions that the cycle of building, which has been such a major factor in the prosperity of recent years, has run its course, are, to say the least, premature. On a single day last month, New York City newspapers announced the construction of a 60-story apartment hotel on the site of the New York American building at Columbus Circle, a 53-story apartment hotel to be added to the Tudor City development on East 42nd Street, a 52-story apartment hotel on Park Avenue at 86th Street, and an entire block in the old Chelsea district on the lower West side to be razed and rebuilt with five 16-story new apartments. A day or two later there followed announcement of the new Waldorf Astoria Hotel, a 60-story structure, to be started this Fall on Park Avenue at 50th Street, involving an outlay of $40,000,000. Such large individual projects as these suggest that the present program of rebuilding American cities may be expected to go on indefinitely.

Reflecting the activity in building, lumber sales this year have been running 8 per cent above 1928 and structural steel awards 9 per cent above; cement shipments, on the other hand, have been slightly below last year.

The Petroleum Industry

While the problem of over-production in the petroleum industry still persists, a great deal of study is being made by leading oil men and by the government to devise practicable means for controlling output.

Operators in the Oklahoma field agreed to curtail crude production according to a proration agreement as an experiment to last two weeks. On March 1 wells were allowed to flow wide open for 24 hours to determine potential output, and prorating of several of the more important areas was done on this basis. The plan went into effect on March 4 and its success is shown by the fact that weekly production in that State dropped from 4,991,000 barrels for the week ended March 2 to 4,546,150 barrels for that ended March 16.

In the middle of March, the four regional committees of the American Petroleum Institute (namely, Pacific Coast, Interior U. S., Gulf and Eastern U. S., and Mexico and Northern South America) met at Houston and recommended that:

> ". . . beginning April 1, 1929 the average daily production of the four regions . . . should not exceed the average daily production during 1928 and that each regional committee be requested to meet on March 27 to report to the general committee whether or not the production in the respective regions can be brought to the 1928 average for that region. In the event of favorable reports and the approval of the Institute, the action be at once submitted to the Federal Oil Conservation Board for its approval and if approved . . . shall become effective as the policy of the Institute."

Three hundred petroleum operators in California agreed on March 26 to curtail the daily average crude production of that State by 142,000 barrels under the February daily average. An oil "umpire" was chosen and committees of operators are to report each week to see that the curtailment is carried out.

On March 27 the Board of Directors of the American Petroleum Institute adopted the program submitted by the regional committees and planned to forward it immediately to the Federal Oil Conservation Board. The British Royal Dutch-Shell interests, whose properties are scattered throughout the world, are reported as being entirely in sympathy with the A. P. I. conservation plan, and as pledging their fullest cooperation.

At this meeting, E. B. Reeser, President of the Institute, said that he was completely satisfied that the problem of overproduction was virtually settled except as to general details. It was expected that the plan will be in effective operation by July 1.

Because of the importance of the petroleum industry and the problem of over-production under which it has labored for several years, the efforts now being made toward better control of output will be watched with great interest.

Agriculture

Agriculture is not getting a very early start in planting this Spring. The severe winter weather, which still lingers throughout most of the North and West, has damaged Winter crops to some extent, delayed field work and even harassed the livestock industries of the western range country.

It is too soon, however,, to form any accurate idea as to what probable yields the growing season may develop. An excellent movement is reported in early truck crops from Florida and the Southwest, including strawberries citrus fruits, celery, carrots, spinach and potatoes.

Despite the somewhat large reserve stocks of grain on farms indicated by the Department of Agriculture report, prices show a tendency to hold firm. This is natural in view of the uncertainty as to how big a crop can be made in the United States, the expected smaller European production as a result of the record breaking cold Winter, and the extraordinarily rapid disappearance that is taking place in old stocks. Livestock prices have been stable to firm.

Money and Banking

Contrasting with the generally even tenor of industry and trade, the credit situation during March has given evidence of acute strain. Due to a combination of factors tending to accentuate the gradual tightening of money in progress for months, call loan rates in March suddenly soared to 20 per cent and the stock exchange money market found itself facing the tightest squeeze since the deflation year of 1920. For a time conditions bordering on panic prevailed, as speculators, already rendered nervous by the continuous discussion over the credit situation and now genuinely alarmed by the new developments, dumped stocks overboard in a desperate effort to salvage profits or stave off fast mounting losses. Happily, however, the emergency found the New York banks prepared to meet it, and by their prompt action in throwing funds into the market a crisis was averted and orderly trading restored.

For the last year or more The National City Bank has issued repeated warnings against over-speculation on the Stock Exchange and the danger of just such a money squeeze as has resulted from the sudden withdrawal of funds from the call loan market. Both in this Bank Letter and in the President's remarks to shareholders at the year-end the abnormal credit situation has been referred to.

At the Annual Meeting of shareholders in January, 1928, the comments of Charles E. Mitchell, President, included the following:

The expansion of bank credit for the purposes of the security markets has, in the late months of the year, shown signs of exceeding a normal rate of increase, and while the existing situation is not dangerous, certain features of it will bear watching not only by Bankers but by everybody who is using credit.

February, 1928 Bank Letter:

The rapid expansion of bank credit which has taken place over the past year made it only a question of time when some measures of restraint would have to be imposed, and the Reserve authorities have apparently decided that the present is the proper time to act.

March, 1928 Bank Letter:

In view of the moderate character of commercial demands, and absence of any speculative tendencies in commodities, the advance in rates by the Reserve banks has been interpreted as a gesture of warning against too free an employment of credit in the stock market.

April, 1928 Bank Letter:

The line, however, between justifiable advance (in stock prices) and inflation is a fine one to draw, and the unfortunate part of such widespread indulgence in speculation as has been taking place is that the public becomes heavily involved, so that any decline in prices may affect the expenditures of many people in the commodity markets.

May, 1928 Bank Letter:

An important amount of money has come into the call and short-time money market from corporations by reason of slackening business . . . . It will be prudent policy to recognize that these sums will not be permanently available in the New York market, and to take account of what effects their withdrawal may have.

July, 1928 Bank Letter:

Reviewing the outburst of activity since the beginning of March, the heedlessness of the aggressive element of traders is something to wonder at. Brokers' loans were rising to new high figures from week to week, and as the $4,000,000,000 mark was passed $5,000,000,000 was readily predicted and the more sanguine bulls thought that $10,000,000,000 might not be far off! It was well known that large sums of foreign money were being employed here, and might be withdrawn at any time, in fact, certain of these holdings were being withdrawn.

August, 1928 Bank Letter:

The New York banks recognize a certain responsibility to this money market which other lenders do not feel. The former avoid making a disturbance, while the latter are not near enough to the situation to think about it. The money from interior banks, from all parts of this country and foreign countries, and the money placed by business corporations in an interval between their own needs, is a very uncertain reliance, likely to disappear when most needed. Much of it would take wings at the first vague hints of serious trouble, and all of it is here for more or less temporary employment.

September, 1928 Bank Letter:

Of course, the right of any one to lend money in the call or time market has not been questioned. The bankers of New York, however, know by experience that whether their own loans in the street are large or small they cannot escape a degree of concern and responsibility for the New York money market. What happens in it may affect business generally, not only in New York but throughout the country and beyond and they are too close to the situation to be indifferent to what happens. In the nature of the situation no such concern or responsibility can be felt by a multitude of lenders located in all parts of this country and in other countries. They could not act in

an organized manner if they wanted to, and there is no reason for expecting them to do other than suit their convenience about when their individual funds shall be withdrawn.

November, 1928 Bank Letter:

The experience of recent months should convince everybody that a fundamental change in the New York money market has resulted from the cessation of gold imports. Bank credit cannot be expanded without increasing reserves. Under the inducement of high interest rates some expansion of credit has been accomplished by the conversion of bank loans into private loans, which decrease reserve requirements, but this is a slight substitute for the increase of lending capacity in the banks which has been going on over the last seven years on the basis of their increasing reserves; moreover, it is dependent upon a continuance of high interest rates, which grow more burdensome as the market advances.

December, 1928 Bank Letter:

The tremendous speculation in the stock market has become again a leading feature of the situation and one which inevitably raises the question as to what is in store when the movement ends, as end it must some day. With a wider public participation in the market than ever before, with the facilities of the Stock Exchange already overtaxed by the volume of trading, and with a huge volume of funds loaned in the market by non-banking interests who assume no responsibility for the maintenance of an orderly market and whose sole interest in the event of trouble might be to regain possession of their funds, it must be admitted that the situation has unpleasant possibilities.

January, 1929—A Year End Statement by Mr. Charles E. Mitchell, President:

No complaint regarding the level of stock prices, however, is justified except from the standpoint of credit strain. It is only when current savings are inadequate to keep pace with the advance of prices, and huge borrowings for the carriage of stocks brings a competition with business for the always limited supply of lendable funds, that danger appears. When corporations and others withdraw deposits to lend at high rates, the banks are stripped of the excess funds they would normally hold for industrial needs, and business is affected. So long as the responsibility for credit distribution is held by the banks who obviously feel that responsibility, business should not suffer, but the public must realize that business stability loses when the condition is otherwise.

January, 1929 Annual Report to Shareholders:

By reason of the high rates offered on stock exchange collateral loans, corporations and others have been tempted to withdraw their deposits from banks, lending them directly to collateral security borrowers, and there has thus been introduced an element in the credit structure that has been disturbing to economists and bankers everywhere, not because the withdrawal of depositors has reduced the earning power of banks, but because the withdrawal of such deposits and the direct lending by others has to no small degree taken the responsibility of the maintenance of stable credit conditions from the banks, which are prepared to assume it, and placed it upon others not situated or organized to discharge it.

February, 1929 Bank Letter:

The New York bankers have noted the changing situation with concern and have frankly expressed themselves about it. They know from experience that they cannot be indifferent to conditions in the call loan market, even if their own commitments there are comparatively small. Every banker finds it important to take account of his contingent liabilities—that is, of all conditions which may create demands upon him—and the New York bankers know the vicissitudes of the call money market. They know that in an emergency that market and the entire stock exchange entourage will be on their door step begging for help.

March, 1929 Bank Letter:

The outstanding fact of the money situation is that the seasonal low point of liquidation is now past and we are facing the Spring with its enlarged demands for manufacturing and trade on a level of rates already the highest in eight years . . . . Such rates at this season, before the year's activities have fairly begun, would seem calculated to exert a sobering influence on speculative sentiment, yet such is the psychology of the moment that a rate which only a year ago would have been regarded as a signal for selling stocks is now hailed as a bull argument.

Money Rates in 1929

That the month of March might easily prove to be a critical period in the market was apparent as early as January to one familiar with seasonal fluctuations in the demand for credit. When the post-holiday decline of credit and currency failed to bring the usual ease after the first of the year it was a clear signal of danger ahead. To any one not completely swept away by the bullish propaganda of the stock market, the spectacle of call money rates ranging 7 to 10 per cent before the year's activities had fairly begun, the attitude of the Federal Reserve Banks, and the generally loaned up condition of the member banks could only occasion serious misgivings.

For a brief period in February the advance in the discount rate of the Bank of England and the warning issued by the Federal Reserve Board against the diversion of funds to speculation had a sobering influence, and both stock prices and brokers' loans underwent a rather sharp decrease. Then the up-bidding process was commenced anew, and, in the face of storm warnings plainly flying, carried prices and loans to new peaks in March from which they have lately reacted with so much violence.

Premonitory symptoms of unusual stress in money developed early in March when the call loan renewal rate on the 7th and 8th was set at 10 per cent, and when the closing rate for new loans on two days went to 12 per cent, thus equalling the peak touched during the seasonal run-up rates at the year end.

On March 18, time money rates, which are a better indication than call money of how lenders regard the forward prospects for money, rose by ¼ of 1 per cent to 8 per cent, the highest since September, 1920 and within ¾ of 1 per cent of the 1920 peak. Only at rare intervals in the past quarter century have time money rates reached such levels, these instances being in 1920, in the Fall of 1906, and again in the Fall of 1907.

Meantime, the Treasury announced its March financing calling for $475,000,000 nine months certificates at 4¾ per cent for the purpose of refunding two maturing issues bearing 3⅞ and 3⅜ per cent, sold respectively in June and March of last year. Excepting the eleven months offering of last October, this represented the highest rate for Treasury borrowing since 1921, notwithstanding which the amount of the over-subscription was also the smallest since 1921.

In the face of rising call rates it was inevitable that the cost of commercial money should also advance, and on the 21st rates on bankers acceptances were marked up by ¼ of 1 per cent to yield 5½ per cent on the offering price for 90-day bills, the highest for this type of paper on record, while selling rates on open market commercial paper generally moved up to 6 per cent, as against 5¾ heretofore prevailing.

With call rates skyrocketing to 15 and 20 per cent over the month-end, time money on the 26th was marked up to 8¼, when quotations became largely nominal, and bills were moved up another ⅛ of 1 per cent to 5⅝ per cent, thus establishing for the second time within three days a new high record.

Causes of Tight Money

In seeking an explanation of these extraordinary rates, consideration may be given to the following factors:

1. Spring credit demands of business and agriculture.
2. Absorption of credit in the stock market.
3. Federal Reserve policy.
4. Government tax day operations.
5. Preparations for April 1 interest and dividend disbursements.

Spring Credit Demands

March is always a month of expanding commercial and agricultural demand for credit, and this year the exceptionally high level of business has made these requirements larger than ever before. In the figures of the weekly reporting member banks, which give a good cross section of banking the country over, we find as the principal feature an increase of unsecured loans, representing largely commercial and agricultural borrowing of $230,000,000 since the January low point to $8,910,000,000 on March 20, when they were the highest on record for the season and approximately $100,000,000 above the level on the corresponding date last year.

Stock Market Credit Demands

Accompanying these enlarged seasonal requirements from commerce and agriculture, the stock market also called for more credit in March, as witness the rise of brokers' loans at New York during the week of March 20, reported by the Federal Reserve Bank, to a new record level of $5,793,000,000, exceeding by $124,000,000 the previous peak reached just before the February break in the market.

Despite the exceptional opportunity afforded banks to profit from the spread existing between the rediscount and the call rate, it is evident that the banks have been cooperating fully with Reserve banks in their efforts to limit the flow of credit into the speculative markets. As indicated by the following table comparing the detailed figures of brokers' loans reported by New York banks at significant dates, it has not been banks, but rather corporations, individuals, and other non-banking lenders that have provided the funds for expansion in recent months.

BROKERS' LOANS BY NEW YORK BANKS
(000,000 omitted)

	Mar. 20 1929	Feb. 27 1929	Jan. 30 1929	Mar. 21 1928
For own account	$1,091	$1,090	$1,091	$1,027
For out-of-town banks	1,768	1,693	1,853	1,466
For "Others"	2,934	2,724	2,615	1,285
	$5,793	$5,507	$5,559	$3,778

Though not contributing directly to the expansion of brokers' loans, there is, however, evidence that a considerable amount of bank credit is finding its way into the market through the medium of collateral loans to individuals. As brokerage credit becomes increasingly costly there is a greater tendency for borrowers on stocks to seek accommodation at their banks which find it difficult to refuse owing to the more personal relationship existing between the banker and his customer. As a consequence, banks, though themselves abstaining from the call money market, are in many cases finding themselves becoming more and more tied up in loans to individuals on securities, many of which are unlisted issues and of inferior marketability.

Federal Reserve Policy

Meantime, with the volume of credit required for business and speculative purposes steadily increasing, the Federal Reserve Banks were gradually tightening their grip on the money market by the continued decline in their holdings of bills purchased and Government securities and increase in the volume of borrowing by member banks.

Between February 20 and March 20 the Reserve banks reduced their bill portfolio by $119,000,000 to $237,000,000, making the aggregate reduction since the year-end peak $252,000,000 and bringing the total of these holdings nearly $100,000,000 below March 21 last year.

With so drastic a shrinkage in the volume of Federal Reserve credit put into circulation through the bill market, it was inevitable that member banks should be forced into heavier rediscounting, and by March 20 the volume of such borrowing, which during the post-holiday liquidation in January had dropped off to $782,000,000, was back practically to the billion dollar level of last Summer and Fall, exceeding by nearly 100 per cent the total reported at this time a year ago.

Following we give a table comparing the change in rediscounts since January and since March last year by Federal Reserve districts which shows where the pressure for funds has been most acute:

(000,000 omitted)

	Mar. 20 1929	Change from Jan. 23, 1929	Change from Mar. 21, 1928
Boston	$ 49	—$16	+$ 3
New York	208	+ 55	+126
Philadelphia	97	+ 28	+ 51
Cleveland	77	+ 4	+ 20
Richmond	42	+ 2	+ 15
Atlanta	49	— 12	+ 27
Chicago	237	+ 81	+153
St. Louis	51	+ 9	+ 22
Minneapolis	18	+ 5	+ 13
Kansas City	34	+ 1	+ 22
Dallas	9	— 13	+ 6
San Francisco	72	+ 17	+ 9
Total	$943	+$161	+$467

Government Tax Day Operations

On top of these more fundamental influences making for stringency, March is a month of heavy Government transactions in the money market, these operations involving redemption of outstanding debt and payment of Liberty bond interest, sale of new Treasury issues, and collection of the first quarterly instalment of income taxes,—the whole this year involving a turnover of somewhere between $1,500,000,000 and $2,000,000,000.

The mechanics of these operations are that the Government pays out large sums on the 15th when its obligations fall due, whereas offsetting items such as the collection of income taxes drag out slowly for a week or ten days, and funds subscribed by the banks to the Treasury issues are not called for by the Government until needed.

Thus, while these huge transactions are handled with great skill to avoid undue disturbance of rates, it usually happens that the market is alternately flush with and short of funds, the stringency coming towards the close of the month, and in the present instance doubtless contributing to the sharp run-up of rates which occurred at that time.

April 1 Disbursements and Brokers' Loans for Account of "Others"

More important, however, than any other single factor in causing the extreme pinch was the combination of heavy withdrawals of funds from New York by certain interior centers experiencing unusual pressure, and calling of loans by corporations in preparation for April 1 interest and dividend disbursements.

These last are estimated at upwards of $600,000,000, and as corporations withdraw funds to meet these payments they create a gap which must be filled by bank advances if a crash is to be averted. Ordinarily, this is readily done, but in the present instance the banks held aloof, being in many cases already indebted to the Federal Reserve Banks and disinclined to increase this indebtedness for stock market purposes in the face of the expressed desire of the Reserve authorities to have stock market loans reduced. With the situation, however, approaching a crisis, the New York banks stepped into the breach and by throwing funds into the market staved off a serious situation and restored orderly trading.

All of which demonstrates anew, as did a somewhat similar situation at the close of last year, the dangers inherent in the continued growth in the volume of non-banking funds in the stock market. The New York banks, which, in the event of emergency, will always be called upon to shoulder the major part of the burden of maintaining orderly markets cannot help viewing with concern the growth of responsibilities which they cannot control and which they may not be able to meet. Suiting their action to their words, they have consistently abstained from the call money market despite the high rates that have been ruling there, and it is their hope that the business community generally will stand by its own interest and not contribute to the further development of a condition which has in it possibilities of evil for itself far outweighing the return from a few loans made at temptingly high interest rates.

Present Outlook for Money

With the passing of the month-end strain it is to be expected that call money rates will decline from extreme levels in April, but hopes for easy money in the normal sense of the term are likely to be disappointed. Much, of course, will depend upon what happens in the stock market, as there more than anywhere else lies the key to the current stringency.

That call rates such as those recently prevailing will draw to the stock market the floating supply of funds the world over is inevitable. In this country the effect is seen in the gradual drying up of funds available for other purposes. The bond market has been dead for nearly a year, while the growing dearth of funds for building is finding reflection in reports of a falling off in new construction projects.

If, in the face of this tightened money, general business has not suffered, it is partly because a way has been found whereby the public indifference to bonds has been offset by the issuance of stock, and partly because banks generally have followed a policy of staying out of the call loan market and of conserving their resources as far as possible for their commercial customers.

It is impossible, however, to expect that commercial rates can be held down indefinitely in the face of rising call rates, particularly when business corporations themselves follow the practice of withdrawing their funds from banks and lending them direct in the stock market. During the past month the rate on the bulk of open market commercial paper, as

already noted, has gone to 6 per cent, while bank acceptances have touched new high levels at 5¾-5⅝ per cent for 90-day bills. While these unprecedented rates for bills are due partly to the fact that the bill market for the first time is achieving a position of independence of Federal Reserve support, there can be no doubt that, barring a slump in business or a marked quieting down in the stock market, we are headed towards a costlier level for commercial credits all around.

The Question of Rediscount Rates

All of which leads up naturally to the question of rediscount rates and the desirability of maintaining a closer relation between these and open market rates.

While it is true that few if any banks today are borrowing from the Federal Reserve for purposes of supporting speculation, an advance of the rate would make itself felt immediately on the volume of security loans made direct by banks to customers. So long as such borrowers can point out that the banks are not inconvenienced by making security loans to individuals when they can obtain accommodation at the Reserve banks at 1 per cent under the legal loan rate there will be difficulty in restraining the growth of this practice. If the rediscount rate should be moved up to 6 per cent, that argument would lose its force and the banks would be in a position to force their customers to reduce their loans. This would have the effect of increasing the proportion of savings represented in the holdings of securities, which is the thing to be desired.

To the objection that an advance of the rate would make borrowing more costly for legitimate business, attract funds from abroad, and disrupt the exchanges, the answer is that the call rate, not the bank rate, is king today, and the call rate is doing these things already. Unless a higher bank rate should result simply in reestablishing the current differential on a higher level, there seems no valid reason why it should be looked upon with apprehension.

Foreign Credit Conditions and Gold Movements

Abroad, the repercussions of the high money here continue to be manifest in depressed exchanges and in the efforts of the authorities to prevent their gold reserves from being drained away to America.

Following the advance in the Bank of England's discount rate early in February sterling strengthened for a time, but soon began to slip again and on one or two occasions during the past month stood almost at the gold export point. Lately the pound has been stronger, but there is little confidence in its stability and much apprehension in Great Britain that the bank rate may have to be advanced again to avoid further loss of gold.

On the Continent the discount rate of the Bank of Italy was raised from 6 to 7 per cent on March 13, following an advance from 5½ to 6 per cent on January 7.

In both the German and Dutch money markets the effect of the higher British bank rate was seen in a loss of foreign balances, a tightening of local money rates, and a depression of the currencies to levels necessitating considerable selling of foreign exchange reserves by the central banks in order to protect gold holdings. As it was, Germany lost $16,500,000 of gold to this country and Holland approximately $15,000,000 to London during the month. With the Reichsbank showing gold holdings of recent date amounting to approximately 62 per cent of legal liabilities, these losses for Germany do not suggest the imminence of a higher bank rate, though they have caused the abandonment of all hopes for a further reduction. For Holland, however, which is not so strongly entrenched, the situation is different, and an advance in the bank rate of from 4½ per cent to 5½ was made effective on March 23.

The French currency too has shared in the general weakness of the exchanges, with some liquidation by the Bank of France of credit balances abroad, but so enormous are these holdings that any real threat to French gold or the stability of the French money market seems remote indeed.

Nor is the magnetic influence of our high call rates confined to Europe. During March shipments of $4,000,000 gold were received from Argentina, Argentine exchange being high in response both to money conditions and heavy seasonal exports of commodities.

In the Far East Wall Street money rates are said to be a factor in depressing the yen and hampering the Japanese program of exchange rehabilitation, while nearer at home Canada has been forced to put into effect an unofficial embargo on gold exports in order to check the continued drain of her reserves to this market.

Thus it is apparent that America is rocking the boat in international finance. We are making money tighter all around the world, with all the incident danger of injury to world trade from which we could not expect to be immune. When consideration is given to the fact that Great Britain is still struggling with post-war readjustment, that German industry is already in depression, and that trade generally throughout Europe has suffered from the unprecedented cold winter, the prospect of the added burden of higher interest rates may well occasion misgivings.

Gold Imports and Money Rates

To what extent gold imports may eventuate if the high rates in this country continue is impossible to foresee, for this will depend on how far foreign countries may be willing to go in the imposition of high rates or other restrictions in order to keep their gold at home. That some countries are willing to go a long way in this regard has already been demonstrated, while as for the rest such gold as may come from them, if not used by member banks to pay off their debts at the Federal Reserve Banks, seems more than likely to be swallowed up in the rising tide of stock market demand with little or no effect upon the level of money rates.

The following table is of interest as showing gold movements by amounts and principal countries since the first of the year. Compared with the net loss of $272,000,000 in gold sustained during 1928, the gain thus far is relatively small, and leaves our total holdings still some $441,000,000 below the peak of $4,610,000,000 reached in April of 1927.

Imports	January	February	March	Total
England	$7,274,000	$22,007,000	———	$29,281,000
Canada	39,126,000	3,266,000	$1,500,000	43,892,000
Germany	———	———	16,500,000	16,500,000
Argentina	750,000	———	4,000,000	4,750,000
Miscellaneous	1,428,000	1,640,000	612,000	3,680,000
Total	$48,578,000	$26,913,000	$22,612,000	$98,103,000
Exports and Earmarkings	66,378,000	1,425,000	7,000,000	74,803,000
Gain or Loss	—$17,800,000	+$25,488,000	+$15,612,000	+$23,300,000

Tariff Legislation

There is reason to believe that the pending revision of the tariff will not be as far-reaching as the reports of hearings before the Ways and Means Committee have indicated it might be. Experienced party leaders have said enough to show that they are awake to the dangers of a general unsettlement of trade conditions and the reaction which usually follows. A general tariff revision, whether upward or downward, always has made trouble for the party in power. The Wilson tariff, passed during the first Cleveland administration and followed by President Cleveland's defeat for a second term, is an example on one side, and the McKinley and Aldrich-Payne tariffs, passed under Republican administrations and followed by Democratic victories, are examples on the other side. It is a very true saying that business will adapt itself to any conditions that are reasonably permanent, and suffers most from unstable and uncertain conditions.

It cannot be questioned that public sentiment in this country favors a judicious policy of protection. The Democratic party, which under the leadership of Cleveland stood for a tariff for revenue only, in the last campaign recognized the hold which the protective idea has on the voters by offering assurances that if it came to power it would make no tariff changes which would disturb industry. At present the protective policy is in no danger except from ill-advised action by its own advocates.

Protection is a natural policy for new countries, with undeveloped resources desirous of diversifying its industries and establishing the largest practicable degree of economic independence. Undoubtedly it has played a large part in the industrial development of this country, but like any other policy on the regulation of business it may be overdone. It is subject to misunderstanding and misguidance, as when it fosters the idea that a country may make itself rich and prosperous by simply marking up wages and prices in terms of money, or lays undue emphasis upon home production as against advantageous foreign trade.

It should be evident that there is no gain in wage and price advances which must be passed on to consumers and affect everybody alike. They do not change anybody's purchasing or affect the standard of living. These are changed only by economic gains which enable the population to increase production and consumption.

As a general rule the principles of economics which apply to individual production and trade apply also in the production and trade of nations. No individual in modern society thinks of doing everything for himself. He knows that he can have more of everything by being a part of organized society, developing his own talents and capacity along some chosen line and exchanging his products or services for those of specialists in other lines. It is certain that owing to differences in natural resources the inhabitants of different sections of the United States find it advantageous to carry on trade, and that as a whole they are more prosperous than they would be if every State was free to establish tariff barriers for the purpose of making itself self-supporting and self-contained. Furthermore, so far as economic considerations are concerned, the situation as to world trade is the same.

It is a fundamental mistake to think that as a country we should produce everything we consume regardless of cost, or, that we will have any more industry or employment for labor, create any more wealth or be more prosperous by doing so. On the contrary, the country will have more employment for labor and an industrial output of greater value if it will produce the commodities which it can produce most advantageously, and obtain what other commodities it wants by giving these in trade. The real question is not that of finding employment for labor, but of the most productive employment, measured in dollars and cents. It is by producing the highest net values that the country obtains the largest

returns for labor and capital, and it is a misdirection of energy to employ either labor or capital otherwise.

The industries which are most valuable to a country are not those which must be fostered or supported permanently by legislative aid in the home market, but those which are able to compete in all the markets of the world, and which thus have the largest possibilities of expansion. The recent growth of our exports in all quarters, and particularly of manufactured exports, is proof that these possibilities are important. It is, however, a condition of world trade that we shall receive the products of other countries in exchange. The purchasing power of every country is in its own products.

Fear of Low Wage Competition

There is an exaggerated fear of competition with low wage countries. A low wage country cannot drive a high wage country out of business in any general sense. As a rule wages are low where labor is comparatively unproductive, either because it is unskilled or inexperienced or because it is not provided with the best class of equipment. Density of population—labor supply—also is a factor, but a country with a dense population will be a larger consuming country and cannot export largely without also importing largely. Every country in the long run must import as much as it exports, unless it is getting the worst of the trade or making permanent investments abroad. The industries of high wage and low wage countries will be naturally adjusted to each other, so as to be complementary rather than competitive, just as there are employments for high wage and low wage labor in the same country. There is plenty of work for all the labor in the world, of all grades and rate of pay, and there is gain to every class in exchange with the other classes. Moreover, nothing can be more foolish than to apply high class labor to low class work or production which for any reason can be more economically done in some other place, even though that place is in another country.

The Latin American countries have lower wages than the United States, because they have a lower industrial development. They have not the capital for manufacturing extensively, or the experienced management or labor for the advanced industries. Their purchasing power exists in foodstuffs and raw materials, some of which are of classes produced in the United States and some are not. The greater part differ from the products of this country in such degree that they are not competitive in the usual sense. A new theory of competition, however, has been developed at Washington at the recent hearings, and offered as the basis for a new tariff upon bananas, the argument being that they are an alternative food product, and that if the people of the United States eat bananas they will eat less of food products grown at home. This will serve as an example of proposed regulation dominated by the single idea of making the country self-sufficient. Banana culture has developed into an important industry in several of the caribbean countries, whose chief market is the United States. The same countries buy wheat flour, condensed milk and other canned goods, cottongoods, shoes, and numerous other goods in this country. The trade is natural, advantageous to both sides, and growing. A blow to the banana industry would be disastrous to those countries, an unneighborly act and affront, and as an act of policy so preposterous that probably there is no danger that it will be committed.

Relations with Cuba

An increase of the duty on sugar would be equally unjustifiable, particularly on account of this country's relations with Cuba. The latter country is almost within sight of our shores. There is every reason why the relations between it and this country should be intimate and mutually beneficial. The United States aided in establishing its political independence, and in doing so earned and has been given the gratitude of the Cuban people. Economically, however, Cuba is dependent upon the United States, and Cuba ranks high in the list of countries as an importer of United States products. Sugar can be produced as cheaply in Cuba as in any part of the world, and confessedly more cheaply than in the United States. If it was politically a part of this country there would be no argument about where at least the greater part of our sugar supply would be produced, and the economic consideration is not affected by the fact that Cuba has a government of its own.

Fair trade relations with the United States mean prosperity for Cuba, and reciprocal trade advantageous to both countries. A policy on the part of the United States which would mean the gradual exclusion of Cuban sugar would result in disaster to Cuba, economically and socially. Sugar is the basis of employment and livelihood in the island, and nothing can readily take its place. It could not turn to any crop for its soil without the assurance of a market in the United States and it can render no other service so great as the production of sugar. Large investments in the sugar industry have been made on the strength of the treaty with the United States now of nearly thirty years standing. It is inconceivable that the people of the United States with a full knowledge of the mutual interests involved would favor any policy which would violently disrupt the relations existing between the two countries, or change the policy governing those relations from one of mutual consideration and helpfulness.

Sugar duties are an important item in the revenues of most countries, and always have been in the United States. The duty on Cuban sugar under the reciprocal tariff agreement now amounts to about 85 per cent of the market price, in Cuba, which obviously is a high rate upon a common article of food. It affords a degree of protection which is ample to the beet sugar producers in the regions where production is already established, and where freight charges from the Atlantic or Gulf coasts also are an important factor. The argument for a higher duty is based wholly upon the theory that notwithstanding this neighboring source of cheap supplies this country should deliberately tax itself in perpetuity for the purpose of producing all the sugar it may consume. There is no economic basis for such a policy, for to whatever extent importations are reduced the revenue motive would disappear. In view of all the circumstances it would be a serious matter to encourage large capital investments on the pledge of sustained governmental support, despite the shifts of political sentiment in this country.

Copper Prices Feature Commodity Markets

With all this present industrial activity, record corporation earnings and unprecedented speculation in the stock markets it is noteworthy that inflation of commodity prices remains conspicuously absent.

Except for the advance in certain metals, the general level of commodity prices has held fairly stable so far this year. Live stock is an exception, and hogs, cattle and sheep are around their top prices for the year. Grains are about midway between their 1929 high and low range, and were somewhat unsettled by the reaction in the securities market, as was cotton also. The limited number of these advances has been offset by declines, as in hides which are down 40 per cent from last year's maximum, and sugar which is the lowest in fourteen years, and the index measuring all commodities is slightly lower.

A continuation of the sensational rise in the price of copper during March carried the price to 24 cents per pound for domestic delivery or 24⅜ cents c. i. f. European ports. Inasmuch as one year ago the domestic price was 14 cents, an advance of 2¾ by the end of 1928 and 7¼ cents to date in 1929, results in a heavy increase in costs by purchasers. Considering the advance above prewar levels, however, that has taken place in the prices of other commodities, the present price of copper would not seem to be far out of line.

At the same time it will make possible an increase in profits and dividends of mining companies, which are also benefiting by recently improved methods in production resulting in lower costs and greater percentage recovery of copper from the ore. A part of this prosperity has already been passed on to the miners in the form of wage increases.

In the Fall of last year when the copper situation tightened and the price turned upward a large increase occurred in world production. Of this increase the main part was in this country, South American and other foreign production contributing only a small part. The following table gives production on a blister basis in gross tons:

WORLD COPPER PRODUCTION

1928	U. S.	Chile & Peru	Other Foreign	Total World
September	85,795	31,697	37,026	154,518
October	100,720	33,643	39,260	173,623
November	103,317	37,835	39,841	180,813
December	103,386	33,763	39,091	176,240
1929				
January	101,151	35,162	38,770	175,083
February	92,148	31,886	37,220	161,254

It will be observed that the chief increase came in October and that since that time the changes have not been large. Foreign production shows no material change throughout the period. February figures declined sharply but when reduced to daily averages are comparable with those of the preceding four months. Apparently the high output is being absorbed, for stocks of refined metal are hovering around an extremely low point and it is stated that producers are unable to fill all demands.

Foreign copper production is expected to increase in the coming years, for development of Canadian and African properties is proceeding rapidly. The Canadian Department of Interior estimates that within five years Canada will produce annually about 250,000 tons, or almost three times its 1928 production. In the future Africa will assume more importance as a copper producer through the opening up of Rhodesian deposits, but of course it takes years for the mines in these new territories to become major factors in the world copper situation.

World consumption, on the other hand, increases consistently from year to year, and from 1925 to 1928 exceeded production. An enormous demand, still increasing rapidly, comes from automobile and accessory manufacturers, from building contractors, and from the electrical industry for central station installations, wiring and appliances, both in this country and abroad.

Other Non-Ferrous Metals

Some interesting comments on the 1928 activity of nickel were given by the President of the International Nickel Co. of Canada, Ltd., in his annual report to stockholders, from which we quote in part as follows::

"Sales of metallic nickel in the United States were approximately 97 per cent in excess of similar sales during the previous year, and world sales of nickel exclusive of the United States, increased approxi-

mately 52 per cent. . . Your management attributes the rapid growth in business not alone to generally good business conditions but largely to new application of nickel. . .

"Owing to uninterrupted operation and the large tonnage of bessemer matte produced, costs recorded are the lowest in the history of your smelter. . .

"Alloy steel manufacturers continue to be the largest consumers of metallic nickel. Use of nickel steel is growing rapidly not alone in the automotive industry but in the railroad field and generally throughout industries manufacturing machinery and equipment. The quantity of nickel used in producing iron and steel castings doubled during the past year and the special alloy cast-irons are meeting with marked success."

The lead market showed some strength during March possibly due to a decline in production and influence of the Mexican revolution. February crude production for the United States and Mexico was at a rate slightly below the previous month while shipments showed a slight increase.

One year ago the monthly average price of lead, St. Louis, was at a low point of 5.82c per pound. Demand was good throughout March and the price had a number of advances which carried it to 7.75c at the present time. It is stated in trade papers that consumers are unable to place orders easily and that sellers are making efforts to "keep the domestic market on an even keel so as to prevent a duplication in lead of what has transpired in copper."

For the first time in some months the price of zinc shows a substantial increase. Heavy requirements by consumers have stimulated smelter operations in the Missouri district and caused a number of idle mines to be reopened.

Corporation Earnings Return on Net Worth

Continuing the study of corporation profits in 1928, discussed in our March bank letter, we present this month a similar table considering the data from a somewhat different angle, namely, the rate of return on net worth, brought down to date to include 373 additional annual reports published during the past month.

The "net worth" of each industrial group at the beginning of the year has been computed by taking the capital stock outstanding and surplus account of each individual company for which profits figures are available.

Aggregate net profits of 900 manufacturing and merchandising corporations that have now published their 1928 reports amounted to $2,822,362,000. Combined "net worth" of all groups at the beginning of 1928 was $23,372,370,000, on which the year's profit represented a return of 12.1 per cent on the stockholders' equity, after paying all expenses, setting up depreciation reserves, paying interest on borrowed money and providing for taxes.

Our analysis shows that 41 iron and steel companies had combined capital and surplus of $3,271,743,000 at the beginning of the year, on which net profits of $232,035,000 were realized, giving a return of 7.1 per cent. This is considerably better than in 1927 yet is below the average in most other lines. Considering the importance and basic character of the steel industry, and the fact that volume of steel ingot production established a new high record in 1928, this return appears sub-normal.

The automobile industry shows an unusually high return, the 21 manufacturers in this group (not including Ford Motor Co., whose figures have not yet been published) making net profits of $399,136,000 on a capital and surplus at the beginning of the year aggregating $1,430,648,000. This gives a return of 27.9 per cent and is considerably better than in 1927. Automobile parts and accessories likewise reflect prosperous conditions, the group of 45 companies showing a return of 21.5 per cent.

Better than average returns were made by the aviation industry which shows 34 per cent profits on net worth, also by industrial chemicals with 17 per cent, drugs and sundries 24 per cent, flour and bakery products 21 per cent, household equipment 18 per cent, printing and publishing 23 per cent.

Merchandising companies, including 76 organizations in the chain store, department store and mail order field show net profits last year of $204,592,000 on invested capital and surplus of $1,208,282,000, representing a return of 16.9 per cent. The relatively high return in this line is due to the fact that the general prosperity of last year combined with hand-to-mouth buying policies permitted a high rate of inventory turnover. Moreover, it is probable that the large merchandising organizations have gone ahead somewhat faster in recent years than have the small independent merchants whose statements are not published.

Sub-Normal Industries

Unsatisfactory conditions which prevailed in certain industries last year are reflected in subnormal returns shown by the tabulation. Coal mining, with a $530,660,000 investment of 19 large companies, realized only 2 per cent net profits, while 26 cotton mills, with $245,173,000 net worth, made 2.8 per cent. Nine meat packing companies, with a capital and surplus of $499,001,000 had 1928 earnings twice as large as in 1927, yet last year made only a 6.6 per cent return. Seventeen railway equipment companies with a net worth of $773,163,000 made profits last year of 5.7 per cent.

Reports of 25 companies in the sugar industry having a net worth of $526,345,000 showed profits of only 4.6 per cent. Porto Rican sugar producers did relatively well, as did the Hawaiian group, while earnings of two leading refiners were well ahead of 1927, but most Cuban cane and American beet producers had unsatisfactory profits or, in some cases, deficits. Four woolen mills with capital and surplus of $142,442,000 had a combined net deficit of $2,077,000, while 19 tire manu-

CORPORATION EARNINGS RETURN ON NET WORTH

No.	Industry	Net Worth Jan. 1, 1928	Net Profits 1928	% Return 1928
12	Agricultural Implements	$479,288,000	$60,177,000	12.5
17	Amusements	471,297,000	52,072,000	11.0
25	Apparel, etc.	160,820,000	19,658,000	12.2
21	Automobiles	1,430,648,000	399,136,000	27.9
45	Auto Accessories	390,652,000	84,094,000	21.5
5	Aviation	14,440,000	5,009,000	34.6
33	Building Materials	566,661,000	50,212,000	8.8
21	Chemicals—Industrial	953,502,000	161,649,000	17.0
9	Chemical Products—Misc.	151,161,000	18,452,000	12.2
19	Coal Mining	530,660,000	10,838,000	2.0
16	Copper Mining	687,801,000	90,685,000	13.2
26	Cotton Mills	245,173,000	6,872,000	2.8
17	Drugs and Sundries	196,990,000	48,138,000	24.5
24	Electrical Equipment	789,600,000	131,008,000	16.6
16	Flour and Bakery	354,288,000	75,068,000	21.2
36	Food Products—Misc.	710,462,000	119,723,000	16.8
20	Heating and Plumbing	341,444,000	37,331,000	10.9
18	Household Equipment	197,676,000	35,938,000	18.2
41	Iron and Steel	3,271,743,000	232,035,000	7.1
14	Leather and Shoe	281,446,000	31,713,000	11.3
9	Lumber and Furniture	98,459,000	5,029,000	5.1
45	Machinery	511,429,000	58,718,000	11.5
9	Meat Packers	499,001,000	32,826,000	6.6
76	Merchandising	1,208,282,000	204,592,000	16.9
27	Metals Non-Ferrous (Exc. Copper)	477,812,000	48,411,000	10.1
12	Office Equipment	154,100,000	24,302,000	15.8
10	Paints and Varnishes	109,310,000	13,999,000	12.8
13	Paper Products	132,738,000	10,844,000	8.2
66	Petroleum	3,777,426,000	416,956,000	11.1
19	Printing and Publishing	148,121,000	34,091,000	23.0
17	Railway Equipment	773,163,000	44,426,000	5.7
19	Rubber	613,881,000	2,308,000	0.4
16	Shipping, etc.	170,286,000	13,134,000	7.7
16	Silk and Hosiery	85,926,000	7,093,000	8.3
25	Sugar	526,345,000	24,234,000	4.6
16	Textile Products—Misc.	225,680,000	21,954,000	9.7
23	Tobacco	876,107,000	117,872,000	13.4
4	Wool	142,442,000	*2,077,000	*1.5
43	Miscellaneous	616,110,000	73,842,000	12.0
900	Grand Total	$23,372,370,000	$2,822,362,000	12.1

*Deficit

facturers had their operating profits practically wiped out by inventory losses caused by the decline in crude rubber prices.

Petroleum production and gasoline refining constitute the largest single industrial group with capital and surplus of the 66 companies that have issued reports to date aggregating $3,777,426,000. Earnings last year amounted to $416,956,000 or 11.1 per cent on net worth, which was better than in the preceding year, but allowance should be made for the fact that some producing companies do not make any charges against profit and loss account for depletion of reserves, so that the actual net profit (exclusive of capital returned on depletion account) is somewhat less than the figure given. In the copper industry the same holds true as some companies do not provide for the exhaustion of ore reserves and the calculated 13.2 per cent return in 1928 is somewhat over-stated despite the material improvement experienced last year.

Scope of Study

No extended comment appears necessary regarding the accompanying table, which is in such form that it speaks for itself and should, we believe, merit careful examination. A compilation of these published figures on such a comprehensive scale, embracing the majority of large American corporations which handle a major share of the country's total volume of business, furnishes a valuable cross-section of the economic structure and clearly brings out the high lights of prosperity.

There has been no arbitrary selection of companies and every available name has been included, provided the concern's published earnings (or losses) amounted to at least $100,000 in any of the last three years, and that it was directly engaged in industry or trade, and not merely an investment or financing company. Fiscal years end December 31 for most concerns, but a limited number of other fiscal years have been included, particularly in the sugar industry which closes its season any time from July 31 to December 31; meat packing which is on a November 1 basis for the large packers, and merchandising which in many cases closes its year on January 31. In order to make the tabulation complete we have

included these exceptions with fiscal years ended July 31, 1928 to February 28, 1929 and therefore having the major part of their operations in the calendar year 1928.

Net worth is calculated on the outstanding preferred and common stock and surplus at the beginning of the 1928 calendar or fiscal year, except that in a very few instances statements of a slightly different date had to be used. This has been done because it was impossible to obtain back statements of many sizeable companies which last year did their first public financing in connection with which a single balance sheet was issued. In a few cases where net worth was materially changed by mergers taking place during the year adjustments have been made therefor.

Profits are taken after all expenses, interest charges, reserve for depreciation and provision for taxes have been deducted, except in a limited number of cases where certain of these charges are not allowed for. Due to the lack of uniformity in accounting practice it is impossible to compile reports of a large number of companies on an absolutely comparable basis, but the discrepancies are not so numerous or large as to make any appreciable difference in the totals. Classification has been limited to broad industrial groups.

All but 4 per cent of the companies studied are "million dollar corporations," while 46 per cent have a net worth of $10,000,000 or more. United States Steel Corporation had at the beginning of last year a capital and surplus of $1,705,397,000 while General Motors Corporation had $729,001,000 and there were in all 46 industrial giants with a net worth in excess of $100,000,000.

Railroad and Public Utility Profits

It is impossible to include railroads and public utility systems in a tabulation such as is presented herein for the reason that the inter-stock ownership among railroads, and the separate operating, holding and intermediate companies among utilities result in a substantial and misleading duplication of profits in any composite statement. It is of interest to observe, however, that the net railway operating income of the 185 Class I American railroads last year amounted to $1,193,134,000 on a valuation of railway property used in operations (not based on stock and bond capitalization) carried on the books at $25,022,632,000, representing a 4.71 per cent return. On the Interstate Commerce Commission's valuation of $21,500,000,000 for rate making purposes the return was 5.5 per cent. These earnings, however, are before payment of interest on bonded indebtedness and before adjustments for outside income and sundry deductions, so that the percentage return on the stockholders' equity would be altered accordingly.

Ninety-five large electric light, power, gas, water and other public utility systems had a combined operating income in 1928 of $857,400,000, while ninety-four telephone and telegraph companies had $252,244,000. Operating companies in the utility field have earnings somewhat above the railroads but below the industrials, on an average. The American Telephone and Telegraph Company had outstanding capital stock, instalment receipts, and surplus at the beginning of last year of $1,404,667,000, on which the net profits of the holding company, after bond interest, depreciation, etc., and available for dividends, amounted to $143,170,000 and represented a 10.2 per cent return on the stockholders' equity.

Aggregate net profits in 1928 of the 900 industrial and trading companies in this study were 23 per cent ahead of 1927 and 13 per cent ahead of 1926, the former record year. Net income of the railroads in 1928 was 9.9 per cent above 1927 but 3.1 per cent below 1926, while the telephone group was 10.8 per cent above 1927 and 18.9 above 1926, and the other utilities were 10.6 per cent above 1927 and 19.9 per cent above 1926.

Income tax receipts by the United States Treasury have shown a correspondingly large increase this year. Receipts in the month of March, representing the first instalment of taxes on 1928 earnings, are more than 20 per cent above March of a year ago.

A feature of the returns, in addition to the prosperity of corporations, extra dividends, wide-spread bonuses and profits in stocks which they reflect, is the large number of new taxpayers who come this year for the first time into the tax-paying class. As a result of this increase in March tax receipts the Treasury has eliminated the deficit under which it had been operating and there is promise of a surplus at the end of the current fiscal year on June 30.

National City Bank and Farmers' Loan and Trust Affiliation

As this bulletin is going to press the following announcement was made:

"Charles E. Mitchell, President of The National City Bank of New York, and James H. Perkins, President of The Farmers' Loan & Trust Company, announced today that the Boards of Directors of the two institutions had agreed on terms for the affiliation of the Trust Company with the Bank. Meetings of the stockholders of both institutions will be held in the near future to approve the transaction.

"The shares of the capital stock of the Trust Company will be placed in the hands of Trustees to be held for the benefit of the shareholders of The National City Bank in a manner similar to that in which the capital stock of The National City Company, which is the Bank's security affiliate, is now held.

"The name of the Trust Company will probably be changed to "City Bank Farmers Trust Company." It will devote itself entirely to the administration of trusts and will take over, as far as practicable, the trust business of The National City Bank.

"On the other hand, the commercial banking business of the Trust Company will be taken over by the Bank.

"The stockholders of the Trust Company will receive, when all necessary corporate steps have been completed, five shares of stock of The National City Bank for each share of stock in the Trust Company. This will result in an increase of the capital of the Bank from $100,000,000 to $110,000,000. It is planned that the Trust Company will have a capital of $10,000,000 and a surplus of the same amount.

"In addition to the existing endorsement on the stock certificates of the Bank, which evidences the beneficial interest of the shareholders of the Bank in the stock of The National City Company, there will be a second and similar endorsement to evidence the beneficial interest of such shareholders in the stock of the affiliated trust company.

"Proceedings to effect these results will be taken under Federal and State Laws, and full details will be given in the notices which will be sent out to the stockholders of both institutions.

"Charles E. Mitchell will become Chairman of the Trust Company, and James H. Perkins will continue as its President and will become a Director of the Bank. All of the present officers and entire organization of the Trust Company will be retained, and will be supplemented by the personnel of the Trust Department of the Bank. The new building, which the Trust Company is about to erect to replace its present building at 22 William Street, between Exchange Place and Beaver Street, immediately to the south of the Head Office of the Bank at 55 Wall Street, will be designed to meet the special needs of an organization devoted solely to the handling of trust business.

"Mr. Mitchell also announced that the Board of Directors of the Bank had approved the following administrative changes in the Bank and The National City Company, which will be effected at the next regular meetings of their Boards of Directors:

"Mr. Mitchell will become Chairman of the Bank and of The National City Company, as well as of the Trust Company. Eric P. Swenson, Chairman of the Board of the Bank since 1921, will retire from that office but will continue as a Director. Gordon S. Rentschler, since 1923 a Director and since 1925 a Vice-President and Assistant to the President, will become President of the Bank. Hugh B. Baker, since 1917 a Vice-President of The National City Company, will become President of that Company and will become a Director of the Bank. The By-Law changes necessary to invest the office of Chairman with executive powers will be made in the three affiliated institutions."

New Branches Opened

Since the first of the year The National City Bank of New York has opened a branch in Bogota, Colombia to be followed in the near future by branches in Medellin and Barranquilla, Colombia and Mexico City, Mexico. In line with the policy of constantly extending its facilities serving the metropolitan area another New York City branch was established at 86th Street and Broadway.

The National City system now includes 89 foreign branches of the Bank located in 23 different countries and 31 domestic branches in Greater New York, while The National City Company has 58 domestic and foreign offices.

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